

**STORM LAKE
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS & QUESTIONED COSTS

JUNE 30, 2005

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14-15
Governmental Fund Financial Statements:	
Balance Sheet	C 16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 17
Statement of Revenues, Expenditures and Changes in Fund Balances	E 18-19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 20
Proprietary Fund Financial Statements:	
Combining Statement of Net Assets	G 21
Combining Statement of Revenues, Expenses and Changes in Net Assets	H 22
Combining Statement of Cash Flows	I 23
Notes to Financial Statements	24-31
Required Supplemental Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund	32
Budgetary Comparison Schedule - Budget to GAAP Reconciliation	33
Notes to Required Supplementary Information - Budgetary Reporting	34
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	1 35
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 36
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 37-38
Comparison of Taxes and Intergovernmental Revenue	4 39
Schedule of Expenditures of Federal Awards	5 40-41
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	42-43
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	44-45
Schedule of Findings and Questioned Costs	46-49

STORM LAKE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

Mark Schultz	President	2004
Edward McKenna	Vice President	2004
Peter Stienfeld		2003
Kathy Croker		2005
Dan Douglas		2003

(After September, 2004 Election)

Mark Schultz	President	2007
Edward McKenna	Vice President	2007
Todd Nicholson		2006
Kathy Croker	(Resigned September, 2004)	
Dan Douglas		2006
Leslie Cutler	(Appointed October, 2004)	2005

SCHOOL OFFICIALS

Bill R. Kruse	Superintendent
Trudy Peterson	District Secretary/ Treasurer

Independent Auditor's Report

To the Board of Education of the
Storm Lake Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Storm Lake Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Storm Lake Community School District as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 13, 2005 on our consideration of Storm Lake Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 34 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Storm Lake Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Bruce D. Frink
Certified Public Accountant

September 13, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

STORM LAKE COMMUNITY SCHOOL DISTRICT

Storm Lake Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$15,402,900 in fiscal 2004 to \$17,030,954 in fiscal 2005, while General Fund expenditures increased from \$15,762,132 in fiscal 2004 to \$16,489,418 in fiscal 2005.
- The increase in General Fund revenues was attributable to a increases in property taxes and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits as well as increased Federal grant activity. The General Fund balance increased due to increased revenue and cost control measures.
- Interest earnings in the General Fund increased from \$34,496 in fiscal 2004 to \$58,252 in fiscal 2005.
- The District began collecting school infrastructure local option sales tax from Buena Vista County in fiscal 2005. The majority of the District's students reside in Buena Vista County. Revenues exceeded \$900,000 in fiscal 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *Government-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the Government-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the *short term*, as well as, what remains for future spending.
- The statements for *proprietary funds* offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as food services and community education.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Storm Lake Community School District

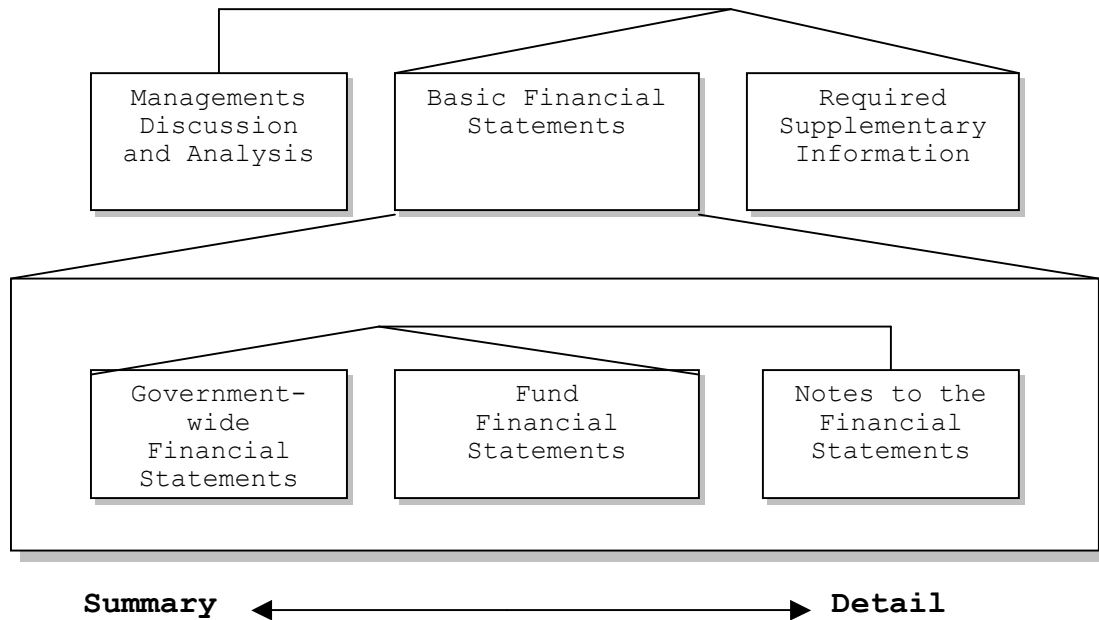


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service and community education
Required financial statements	<ul style="list-style-type: none"> . Statement of net assets . Statement of activities 	<ul style="list-style-type: none"> . Balance sheet . Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> . Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the Government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and community education programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Community Education Fund.

Financial Analysis of the District as a Whole

Net assets – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Current assets	13,503	12,119	217	190	13,720	12,309	11.46%
Capital assets	8,669	9,172	99	133	8,768	9,305	-5.77%
Total assets	<u>22,172</u>	<u>21,291</u>	<u>316</u>	<u>323</u>	<u>22,488</u>	<u>21,614</u>	<u>4.04%</u>
Current liabilities	10,173	10,985	38	24	10,211	11,009	-7.25%
Non-current liabilities	2,250	2,250	-	-	2,250	2,250	0.00%
Total liabilities	<u>12,423</u>	<u>13,235</u>	<u>38</u>	<u>24</u>	<u>12,461</u>	<u>13,259</u>	<u>-6.02%</u>
Net Assets							
Invested in capital assets, net of related debt	6,419	6,407	99	133	6,518	6,540	-0.34%
Restricted	1,113	127	-	-	1,113	127	776.38%
Unrestricted	2,217	1,522	179	166	2,396	1,688	41.94%
Total net assets	<u>9,749</u>	<u>8,056</u>	<u>278</u>	<u>299</u>	<u>10,027</u>	<u>8,355</u>	<u>20.01%</u>

The District's combined net assets increased by 20% at June 30, 2005 over June 30, 2004. This occurred primarily from the General Fund increase as well as the increase in the Capital Projects Fund resulting from the collection of the one cent sales tax from Buena Vista County where the majority of the District's students reside.

Changes in net assets - Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4 Change in Net Assets (expressed in thousands)			
	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	1,344	599	1,943
Operating grants, contributions and restricted interest	3,814	561	4,375
General revenues:			
Property tax	5,110	-	5,110
Local option sales tax	925		925
Income surtaxes	342		342
Unrestricted state grants	7,812	-	7,812
Unrestricted investment earnings	58	-	58
Other	61	-	138
Total revenues	<u>19,466</u>	<u>1,160</u>	<u>20,626</u>
Program expenses:			
Governmental activities:			
Instruction	11,941	-	11,941
Support Services	4,680	-	4,680
Non-instructional programs	56	1,181	1,237
Other expenses	<u>1,096</u>	<u>-</u>	<u>1,096</u>
Total expenses	<u>17,773</u>	<u>1,181</u>	<u>18,954</u>
Change in net assets	<u>1,693</u>	<u>(21)</u>	<u>1,672</u>

Property tax and unrestricted state grants account for 63% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$19,466,548 and expenses were \$17,773,523.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	11,941	7,438
Support Services	4,680	4,614
Non-instructional programs	56	56
Other expenses	<u>1,096</u>	<u>507</u>
Totals	<u>17,773</u>	<u>12,615</u>

- The cost financed by users of the District's programs was \$1,344,429.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,386,916.
- The net cost of governmental activities was financed with \$5,109,308 in property tax, \$7,812,146 in state foundation aid, and \$58,252 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$1,160,040 and expenses were \$1,180,923. The District's business-type activities include the School Nutrition and Community Education Funds. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Expense increases in excess of additional revenues resulted in a decrease in fund balance of approximately seven percent from the prior year.

Financial Analysis of the District's Funds

As previously noted the Storm Lake Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$3,170,409, 92 percent over last year's ending fund balances of \$1,654,393. This was primarily due to increased revenues in the General Fund as well as the imposition of the one cent sales tax in Buena Vista County.

Governmental Fund Highlights

- The District maintained its General Fund balance by cutting expenses from portions of the budget that were not already obligated, such as supplies and maintenance items and receiving additional federal money.
- Buena Vista County instituted the one cent sales tax for school districts. The District collected over \$900,000 in fiscal 2005.

Proprietary Fund Highlights

Federal reimbursements increased due to increased participation in Federal nutrition programs. The number of reimbursable lunches increased by over 3% from the prior year.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 34 and 35.

Legal Budgetary Highlights

The District's total actual receipts were approximately \$805,000 more than the total budgeted receipts, a variance of about 4%. The most significant change resulted in the District receiving more in Federal grant revenues than originally anticipated.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

The District did amend the 2004-05 budget as follows:

Decreased the Instruction function from \$14,032,637 to \$13,282,637 (\$750,000) due to budgeting for the maximum allowable amounts originally. These funds were reallocated to the other functions.

Increased the Total Other Expenditures function from \$1,233,989 to \$1,483,989 (\$250,000) due to the replacement of the High School Gym Roof, which occurred after the original budget was approved.

Increased the Total Support Services function from \$4,053,500 to \$4,303,500 (\$250,000) as the funds were reallocated to meet actual expenditures including a bus purchase.

Increased the Non-instructional Programs function from \$1,157,086 to \$1,407,086 (\$250,000) to meet actual expenditures.

The District's total requirements & tax levies were not affected by this amendment.

Capital Asset and Debt Administration

Capital Assets

By the end of 2005, the District has invested more than \$15,200,000 in a broad range of capital assets including school buildings, athletic facilities, central kitchen, maintenance and administrative buildings, computer and audiovisual equipment, maintenance equipment, school buses, library holdings and textbooks. Total depreciation expense for the year exceeded \$625,000.

Long - Term Debt

The \$3.1 million dollar Middle School bond issue will mature May 2010. The District's capital loan notes on the High School addition will mature in May 2006.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District experienced a decrease of almost 60 students in the 2004-2005 school year. While the District is concerned and will take steps to monitor expenditures in 2005-06, a trend of declining enrollment is not anticipated in the future. Early projections would indicate an increase in official enrollment for the 2005-06 school year.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired). A solution needs to be found.
- Health insurance costs continue to be a concern for the District. Increased rates based on usage have brought this issue to the forefront when calculating the District's budget.
- Once again un-funded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind" and "Student Achievement and Teacher Quality Act" to name a few.
- The District was identified as a recipient of a 21st Century Learning Center Grant beginning with the 2004-05 school year. The award is \$2.125 million over 5 years to fund the District's Elementary Before and After School Program. The District will be required to match \$125,000 in year 4 and \$250,000 in year 5 through operating revenues, in kind contributions or additional grants.
- Voters in Buena Vista County approved a 1 cent School Infrastructure Local Option (SILO) tax in December 2003, with an effective date of July 1, 2004.
- Voters in Sac County approved a 1 cent School Infrastructure Local Option (SILO) Sales tax in September 2003. The Sac County SILO tax went into effect on January 1, 2004.
- The Board of Education intends to accumulate the SILO funds for several years to buy down the debt on a proposed elementary building. As of June 30, 2005, over \$925,000 has been accumulated towards this goal. The District anticipates construction will begin in Spring or Summer of 2007.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Paul Tedesco, Superintendent, Storm Lake Community School District, 419 Lake Ave, Storm Lake, Iowa 50588.

Basic Financial Statements

STORM LAKE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets and Other Debits			
Cash and pooled investments	3,856,322	201,160	4,057,482
Receivables:			
Property tax:			
Current year	54,744	-	54,744
Succeeding year	5,144,048	-	5,144,048
Income surtaxes	163,740	-	163,740
Due from other governments	884,811	6,653	891,464
Other receivables	2,186	694	2,880
Inventories	-	8,245	8,245
Restricted assets (note 11):			
ISCAP investments	3,374,283	-	3,374,283
ISCAP accrued interest receivable	23,353	-	23,353
Capital assets, net of accumulated depreciation (note 3)	8,669,052	99,058	8,768,110
Total assets and other debits	22,172,539	315,810	22,488,349
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts payable	145,538	33,347	178,885
Accrued salary and benefits	1,443,739	4,637	1,448,376
Accrued interest payable	4,204	-	4,204
ISCAP warrants payable (note 11)	3,362,000	-	3,362,000
ISCAP accrued interest payable (note 11)	74,013	-	74,013
Deferred revenue:			
Succeeding year property tax	5,144,048	-	5,144,048
Long term liabilities:			
Portion due within one year:			
Bonds payable	465,000	-	465,000
Capital loan notes	65,000	-	65,000
Portion due after one year:			
Bonds payable	1,720,000	-	1,720,000
Total liabilities	12,423,542	37,984	12,461,526
Net assets:			
Invested in capital assets, net of related debt	6,419,052	99,058	6,518,110
Restricted for:			
Physical plant and equipment levy	151,693	-	151,693
Debt service	34,830	-	34,830
Capital projects	926,665	-	926,665
Unrestricted	2,216,757	178,768	2,395,525
Total net assets	9,748,997	277,826	10,026,823

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	6,948,588	462,398	712,761	(5,773,429)	-	(5,773,429)
Special instruction	4,012,454	880,746	2,175,870	(955,838)	-	(955,838)
Other instruction	979,714	-	271,177	(708,537)	-	(708,537)
	<u>11,940,756</u>	<u>1,343,144</u>	<u>3,159,808</u>	<u>(7,437,804)</u>	<u>-</u>	<u>(7,437,804)</u>
Support services:						
Student services	436,231	-	31,940	(404,291)	-	(404,291)
Instructional staff services	650,406	-	-	(650,406)	-	(650,406)
Administration services	1,675,605	-	-	(1,675,605)	-	(1,675,605)
Operation and maintenance of plant services	1,537,511	-	20,298	(1,517,213)	-	(1,517,213)
Transportation services	364,957	1,285	13,261	(350,411)	-	(350,411)
Central support services	15,723	-	-	(15,723)	-	(15,723)
	<u>4,680,433</u>	<u>1,285</u>	<u>65,499</u>	<u>(4,613,649)</u>	<u>-</u>	<u>(4,613,649)</u>
Non-instructional programs						
Food service operations	5,000	-	-	(5,000)	-	(5,000)
Community service operations	51,000	-	-	(51,000)	-	(51,000)
	<u>56,000</u>	<u>-</u>	<u>-</u>	<u>(56,000)</u>	<u>-</u>	<u>(56,000)</u>
Other expenditures:						
Facilities acquisition and construction	73,402	-	800	(72,602)	-	(72,602)
Long-term debt interest	58,981	-	1,748	(57,233)	-	(57,233)
Long-term debt services	600	-	-	(600)	-	(600)
AEA flowthrough	586,325	-	586,325	-	-	-
Depreciation (unallocated) *	377,026	-	-	(377,026)	-	(377,026)
	<u>1,096,334</u>	<u>-</u>	<u>588,873</u>	<u>(507,461)</u>	<u>-</u>	<u>(507,461)</u>
Total governmental activities	17,773,523	1,344,429	3,814,180	(12,614,914)	-	(12,614,914)

STORM LAKE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business-Type activities:					
Non-instructional programs:					
Nutrition services	959,177	404,405	531,320	-	(23,452)
Community education	221,746	194,886	29,429	-	2,569
Total	18,954,446	1,943,720	4,374,929	(12,614,914)	(20,883)
General revenues:					
Property tax levied for:					
General purposes			4,142,673	-	4,142,673
Management fund			298,110	-	298,110
Debt service			510,232	-	510,232
Capital outlay			158,293	-	158,293
Local option sales taxes			925,247	-	925,247
Income surtaxes:					
General purposes			113,989	-	113,989
Capital outlay			227,995	-	227,995
Unrestricted state grants			7,812,146	-	7,812,146
Unrestricted investment earnings			58,252	-	58,252
Other			77,960	-	77,960
(Loss) on disposal of fixed assets			(16,958)	-	(16,958)
Total general revenue			14,307,939	-	14,307,939
Change in net assets			1,693,025	(20,883)	1,672,142
Net assets beginning of year			8,055,972	298,709	8,354,681
Net assets end of year			9,748,997	277,826	10,026,823

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	2,830,162	29,379	747,486	249,295	3,856,322
Receivables:					
Property tax:					
Current year	44,411	5,451	-	4,882	54,744
Succeeding year	4,178,969	512,818	-	452,261	5,144,048
Income surtax	54,580	-	-	109,160	163,740
Due from other governments	705,632	-	179,179	-	884,811
Other receivables	2,186	-	-	-	2,186
Restricted assets (note 11):					
ISCAP investments	3,374,283	-	-	-	3,374,283
ISCAP accrued interest receivable	23,353	-	-	-	23,353
Total assets	<u>11,213,576</u>	<u>547,648</u>	<u>926,665</u>	<u>815,598</u>	<u>13,503,487</u>
Liabilities:					
Accounts payable	112,486	-	-	33,052	145,538
Accrued salary and benefits	1,443,739	-	-	-	1,443,739
Accrued interest payable	-	-	-	-	-
ISCAP warrants payable (note 11)	3,362,000	-	-	-	3,362,000
ISCAP accrued interest payable (note 11)	74,013	-	-	-	74,013
Deferred revenue:					
Succeeding year property tax	4,178,969	512,818	-	452,261	5,144,048
Income surtaxes	54,580	-	-	109,160	163,740
Total liabilities	<u>9,225,787</u>	<u>512,818</u>	<u>-</u>	<u>594,473</u>	<u>10,333,078</u>
Fund balances:					
Reserved for debt service	-	34,830	-	-	34,830
Reserved for capital projects	-	-	926,665	-	926,665
Unreserved, designated for special purposes	160,893	-	-	-	160,893
Unreserved, undesignated	1,826,896	-	-	221,125	2,048,021
Total fund equity and other credits	<u>1,987,789</u>	<u>34,830</u>	<u>926,665</u>	<u>221,125</u>	<u>3,170,409</u>
Total liabilities and fund balances	<u>11,213,576</u>	<u>547,648</u>	<u>926,665</u>	<u>815,598</u>	<u>13,503,487</u>

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 3,170,409
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	163,740
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,669,052
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(4,204)
Long-term liabilities, including bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,250,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 9,748,997</u></u>

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	4,209,046	511,087	925,247	575,503	6,220,883
Tuition	1,242,735	-	-	-	1,242,735
Other	380,877	490	800	274,685	656,852
State sources	9,058,009	403	-	363	9,058,775
Federal sources	2,140,287	-	-	-	2,140,287
Total revenues	17,030,954	511,980	926,047	850,551	19,319,532
Expenditures:					
Instruction:					
Regular instruction	6,745,785	-	-	140,663	6,886,448
Special instruction	4,012,454	-	-	-	4,012,454
Other instruction	707,620	-	-	272,094	979,714
	11,465,859	-	-	412,757	11,878,616
Support services:					
Student services	436,231	-	-	-	436,231
Instructional staff services	604,965	-	-	7,500	612,465
Administration services	1,583,473	-	-	70,622	1,654,095
Operation and maintenance of plant services	1,400,358	-	-	125,641	1,525,999
Transportation services	361,207	-	-	28,259	389,466
Central support	-	-	-	15,723	15,723
	4,386,234	-	-	247,745	4,633,979
Non-instructional programs					
Food service operations	-	-	-	5,000	5,000
Community service operations	51,000	-	-	-	51,000
	51,000	-	-	5,000	56,000
Other expenditures:					
Facilities acquisition and construction	-	-	-	73,402	73,402
Long-term debt:					
Principal	-	515,000	-	-	515,000
Interest	-	59,828	-	-	59,828
Services	-	600	-	-	600
AEA flowthrough	586,325	-	-	-	586,325
	586,325	575,428	-	73,402	1,235,155
Total expenditures	16,489,418	575,428	-	738,904	17,803,750

STORM LAKE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	541,536	(63,448)	926,047	111,647	1,515,782
Other financing sources (uses):					
Sale of equipment and materials	234	-	-	-	234
Operating transfers in	-	60,913	-	-	60,913
Operating transfers out	-	-	-	(60,913)	(60,913)
	234	60,913	-	(60,913)	234
Excess (deficiency) of revenues and other financing sources over (under) expenditures	541,770	(2,535)	926,047	50,734	1,516,016
Fund balances beginning of year	1,446,019	37,365	618	170,391	1,654,393
Fund balances end of year	1,987,789	34,830	926,665	221,125	3,170,409

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E)		\$ 1,516,016
Amounts reported for governmental activities in the statement of activities are different because:		
Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities.		163,740
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	\$ 157,536	
Depreciation expense	<u>(643,156)</u>	(485,620)
Basis remaining in assets disposed of during the year		(16,958)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		515,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		<u>847</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ 1,693,025</u>

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets

Proprietary Funds

Year ended June 30, 2005

	School Nutrition	Community Education	Total
	\$	\$	
Assets			
Cash	188,915	12,245	201,160
Due from other governments	6,653	-	6,653
Other receivables	694	-	694
Inventories	8,245	-	8,245
Capital assets, net of accumulated depreciation	78,901	20,157	99,058
Total assets	<u>283,408</u>	<u>32,402</u>	<u>315,810</u>
Liabilities			
Accounts payable	33,347	-	33,347
Accrued salary and benefits	3,162	1,475	4,637
Total liabilities	<u>36,509</u>	<u>1,475</u>	<u>37,984</u>
Net assets			
Invested in capital assets, net of related debt	78,901	20,157	99,058
Unrestricted	167,998	10,770	178,768
Total net assets	<u>246,899</u>	<u>30,927</u>	<u>277,826</u>

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year ended June 30, 2005

	School Nutrition	Community Education	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for services	404,405	194,886	599,291
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	63,987	-	63,987
Benefits	25,089	-	25,089
Services	293,565	-	293,565
Supplies	502,846	-	502,846
Property	45,356	-	45,356
Other	1,272	-	1,272
Depreciation	27,062	-	27,062
	959,177	-	959,177
Other enterprise operations:			
Salaries	-	129,291	129,291
Benefits	-	39,921	39,921
Services	-	13,687	13,687
Supplies	-	30,237	30,237
Property	-	2,095	2,095
Depreciation	-	6,515	6,515
	-	221,746	221,746
Total operating expenses	959,177	221,746	1,180,923
Operating (loss)	(554,772)	(26,860)	(581,632)
Non-operating revenues:			
Interest on investments	1,533	182	1,715
Rentals	-	8,438	8,438
State sources	18,200	-	18,200
Federal sources	511,587	20,809	532,396
	531,320	29,429	560,749
Net profit	(23,452)	2,569	(20,883)
Net assets beginning of year	270,351	28,358	298,709
Net assets end of year	246,899	30,927	277,826

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2005

	School Nutrition	Community Education	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	405,363	194,886	600,249
Cash payments to employees for services	(87,631)	(169,225)	(256,856)
Cash payments to suppliers for goods or services	(779,439)	(46,033)	(825,472)
Net cash provided by (used in) operating activities	(461,707)	(20,372)	(482,079)
Cash flows from non-capital financing activities:			
State grants received	18,200	-	18,200
Federal grants received	497,221	20,809	518,030
Rentals	-	8,438	8,438
Net cash provided by non-capital financing activities	515,421	29,247	544,668
Cash flows from capital financing activities:			
Acquisition of fixed assets	-	-	-
Cash flows from investing activities:			
Interest on investments	1,533	182	1,715
Net increase (decrease) in cash and cash equivalents	55,247	9,057	64,304
Cash and cash equivalents beginning of year	133,668	3,188	136,856
Cash and cash equivalents end of year	188,915	12,245	201,160
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(554,772)	(26,860)	(581,632)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	27,062	6,515	33,577
Commodities used	48,079	-	48,079
Decrease in other receivables	958	-	958
Decrease in inventory	3,566	-	3,566
Increase(decrease) in accounts payable	11,955	(13)	11,942
Increase in accrued payroll and benefits	1,445	(14)	1,431
	(461,707)	(20,372)	(482,079)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	188,915	12,245	201,160

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$48,079.

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

Storm Lake Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Storm Lake, Iowa, and agricultural territory in Buena Vista and Sac Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. For financial reporting purposes, Storm Lake Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Storm Lake Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Buena Vista County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The statements of net assets and the statement of activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of Interfund activity has been removed from these statements. Governmental activities which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management that can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other Non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition and Community Education Funds. These funds are used to account for the food service and community wide education operations of the District.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary fund financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Property, furniture and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Long-term obligations - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2005 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public fund.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	860,325	-	-	860,325
Capital assets being depreciated:				
Improvements other than buildings	947,433	-	-	947,433
Buildings	9,920,251	-	-	9,920,251
Furniture and Equipment	3,887,634	157,536	83,159	3,962,011
Total capital assets being depreciated	14,755,318	157,536	83,159	14,829,695
Less accumulated depreciation for:				
Improvements other than buildings	528,939	47,372	-	576,311
Buildings	3,340,236	198,405	-	3,538,641
Furniture and Equipment	2,574,838	397,379	66,201	2,906,016
Total accumulated depreciation	6,444,013	643,156	66,201	7,020,968
Total capital assets being depreciated, net	8,311,305	(485,620)	16,958	7,808,727
Governmental activities, capital assets, net	9,171,630	(485,620)	16,958	8,669,052

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities				
Furniture and Equipment	402,924	-	-	402,924
Less accumulated depreciation	<u>270,289</u>	<u>33,577</u>	<u>-</u>	<u>303,866</u>
Business type activities capital assets, net	<u>132,635</u>	<u>(33,577)</u>	<u>-</u>	<u>99,058</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction	153,935
Instructional support	37,941
Administration	21,510
Plant operation and maintenance	11,512
Student transportation	41,232
Unallocated	<u>377,026</u>
	<u>643,156</u>

Business type activities:

Food service operations	27,062
Other business type activities	<u>6,515</u>
	<u>33,577</u>

(4) Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates %	Interest \$	Principal \$	Total \$
2006	1.60-1.80	47,817	465,000	512,817
2007	1.95-2.20	39,456	475,000	514,456
2008	2.30-2.45	29,125	485,000	514,125
2009	2.50-2.65	17,300	500,000	517,300
2010	2.80-3.00	<u>5,240</u>	<u>260,000</u>	<u>265,240</u>
Total		<u>138,938</u>	<u>2,185,000</u>	<u>2,323,938</u>

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	General Obligation Bonds	Capital Loan Notes	Total
Balance beginning of year	\$2,645,000	120,000	2,765,000
Additions	-	-	-
Reductions	<u>460,000</u>	<u>55,000</u>	<u>515,000</u>
Balance end of year	<u>\$2,185,000</u>	<u>65,000</u>	<u>2,250,000</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$584,213, \$559,082, and \$522,168 respectively, equal to the required contributions for each year.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$586,325 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Early Retirement

The District offers a voluntary early retirement plan to its certified and non-certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to the employee's salary calculated by using the current year regular salary schedule, less the current year base pay. Early retirement benefits paid during the year ended June 30, 2005 totaled \$94,186.

(9) Deficit Balance

The District had an unreserved fund balance deficit of \$93 in its Special Revenue Management Fund at June 30, 2005.

(10) Capital Loan Notes

The District issued \$465,000 of Capital Loan Notes dated November 1, 1996. The proceeds from this debt issuance were used to construct an addition to the existing high school building. The notes will be paid back over a ten year period from a combination of property taxes and income surtax from the voter-approved Physical Plant and Equipment Levy. The interest rate on the entire issue is 5.25%.

Details of the District's Capital Loan Notes are as follows:

<u>Year Ending June 30,</u>	<u>Interest \$</u>	<u>Principal \$</u>	<u>Total \$</u>
2006	<u>2,625</u>	<u>65,000</u>	<u>67,625</u>

(11) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investment</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2004-05A	6/30/04	6/30/05	\$ -	-	-	-
2004-05B	1/28/05	1/27/06	1,699,898	22,995	1,695,000	51,305
2005-06A	6/30/05	6/30/06	1,674,385	358	1,667,000	22,708
Total			<u>\$3,374,283</u>	<u>23,353</u>	<u>3,362,000</u>	<u>74,013</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2004-05A	-	500,000	500,000	-
2004-05B	-	200,000	200,000	-
	<u>\$ -</u>	<u>700,000</u>	<u>700,000</u>	<u>-</u>

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2004-05A	3.00%	2.463%
2004-05B	3.50%	2.280%
2005-06A	3.50%	2.903%

Required Supplementary Information

STORM LAKE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	7,577,840	610,402	8,188,242	7,733,501	7,733,501	454,741
State sources	9,058,775	18,200	9,076,975	9,295,426	9,295,426	(218,451)
Federal sources	2,140,287	518,030	2,658,317	2,090,000	2,090,000	568,317
Total receipts	18,776,902	1,146,632	19,923,534	19,118,927	19,118,927	804,607
Disbursements:						
Instruction	12,065,559	-	12,065,559	14,032,637	13,282,637	1,217,078
Support services	4,283,979	-	4,283,979	4,053,500	4,303,500	19,521
Non-instructional programs	56,000	1,082,328	1,138,328	1,157,086	1,407,086	268,758
Other expenditures	1,235,155	-	1,235,155	1,233,989	1,483,989	248,834
Total disbursements	17,640,693	1,082,328	18,723,021	20,477,212	20,477,212	1,754,191
Excess (deficiency) of receipts over (under) disbursements	1,136,209	64,304	1,200,513	(1,358,285)	(1,358,285)	2,558,798
Other financing sources (uses)	234	-	234	1,500	1,500	(1,266)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,136,443	64,304	1,200,747	(1,356,785)	(1,356,785)	2,557,532
Balance beginning of year	2,719,879	136,856	2,856,735	2,723,671	2,723,671	133,064
Balance end of year	3,856,322	201,160	4,057,482	1,366,886	1,366,886	2,690,596

See accompanying independent auditor's report.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Type		
	Cash	Accrual	Modified
	<u>Basis</u>	<u>Adjustments</u>	<u>Accrual</u>
	\$	\$	\$
Revenues	18,776,902	542,630	19,319,532
Expenditures	<u>17,640,693</u>	<u>163,057</u>	<u>17,803,750</u>
Net	1,136,209	379,573	1,515,782
Other financing sources (uses)	234	-	234
Beginning fund balances	<u>2,719,879</u>	<u>(1,065,486)</u>	<u>1,654,393</u>
Ending fund balances	<u><u>3,856,322</u></u>	<u><u>(685,913)</u></u>	<u><u>3,170,409</u></u>

	Proprietary Fund Type		
	Enterprise		
	<u>Cash</u>	<u>Accrual</u>	<u>Accrual</u>
	<u>Basis</u>	<u>Adjustments</u>	<u>Basis</u>
	\$	\$	\$
Revenues	1,146,632	13,408	1,160,040
Expenditures	<u>1,082,328</u>	<u>98,595</u>	<u>1,180,923</u>
Net	64,304	(85,187)	(20,883)
Beginning fund balances	<u>136,856</u>	<u>161,853</u>	<u>298,709</u>
Ending fund balances	<u><u>201,160</u></u>	<u><u>76,666</u></u>	<u><u>277,826</u></u>

See accompanying independent auditor's report.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment that reallocated disbursements amount the various functions but did not increase total budgeted disbursements.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in any of the functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

STORM LAKE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2005

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	29,768	69,525	150,002	249,295
Property tax receivable:				
Current year	3,191	-	1,691	4,882
Succeeding year	300,000	-	152,261	452,261
Income surtax	-	-	109,160	109,160
	<u>332,959</u>	<u>69,525</u>	<u>413,114</u>	<u>815,598</u>
Total assets	<u>332,959</u>	<u>69,525</u>	<u>413,114</u>	<u>815,598</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	33,052	-	-	33,052
Accrued interest payable	-	-	-	-
Deferred revenue:				
Succeeding year property tax	300,000	-	152,261	452,261
Income surtax	-	-	109,160	109,160
	<u>333,052</u>	<u>-</u>	<u>261,421</u>	<u>594,473</u>
Fund equity:				
Unreserved fund balances	(93)	69,525	151,693	221,125
	<u>332,959</u>	<u>69,525</u>	<u>413,114</u>	<u>815,598</u>
Total liabilities and fund equity	<u>332,959</u>	<u>69,525</u>	<u>413,114</u>	<u>815,598</u>

See accompanying independent auditor's report.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	298,110	-	277,393	575,503
Other	3,161	255,015	16,509	274,685
State sources	237	-	126	363
Total revenues	<u>301,508</u>	<u>255,015</u>	<u>294,028</u>	<u>850,551</u>
Expenditures:				
Instruction:				
Regular instruction	112,085	-	28,578	140,663
Co-curricular instruction	-	272,094	-	272,094
Support services:				
Instructional staff support	7,500	-	-	7,500
Administration services	67,357	-	3,265	70,622
Plant operation and maintenance	59,900	-	65,741	125,641
Student transportation	28,259	-	-	28,259
Central support	15,723	-	-	15,723
Noninstructional programs:				
Food service operations	5,000	-	-	5,000
Other expenditures:				
Facilities acquisition and construction	-	-	73,402	73,402
Total expenditures	<u>295,824</u>	<u>272,094</u>	<u>170,986</u>	<u>738,904</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,684</u>	<u>(17,079)</u>	<u>123,042</u>	<u>111,647</u>
Other financing (uses):				
Operating transfers out	-	-	(60,913)	(60,913)
Total operating financing (uses)	<u>-</u>	<u>-</u>	<u>(60,913)</u>	<u>(60,913)</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	5,684	(17,079)	62,129	50,734
Fund balances beginning of year	<u>(5,777)</u>	<u>86,604</u>	<u>89,564</u>	<u>170,391</u>
Fund balances end of year	<u>(93)</u>	<u>69,525</u>	<u>151,693</u>	<u>221,125</u>

See accompanying independent auditor's report.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Hi Breeze	75	-	9	66
Breeze of 2005	7,705	22,544	25,570	4,679
Art Club	721	2,273	2,367	627
Kreative Kitchens	259	2,508	2,336	431
FCCLA	5,679	5,423	7,068	4,034
International Club	516	248	362	402
Spanish Club	649	1,076	665	1,060
Key Club	573	1,412	1,704	281
Thespian Club	735	-	400	335
Library Club	192	-	-	192
PIC	231	-	-	231
Close-Up	135	-	-	135
Cheerleaders	(325)	9,888	8,743	820
Dance Squad	2,189	9,311	9,524	1,976
Student Council	3,194	24,916	26,033	2,077
Class of 2006	-	18,750	17,837	913
School Play	1,808	520	168	2,160
Speech	916	1,166	1,454	628
School Musical	3,505	1,581	1,810	3,276
All State Music	528	4,125	3,495	1,158
Instrumental Rental	492	450	193	749
Stage Band	43	840	840	43
Vocal Music	405	-	-	405
Chamber Singers	319	-	-	319
Orchestra	800	805	680	925
Academic Enrichment	2,548	3,155	2,628	3,075
School Improvement	4,808	26,506	30,378	936
Drama/Musical	1,389	-	-	1,389
Concessions	1,541	1,000	-	2,541
Interest	2,828	980	155	3,653
Star Club	378	-	-	378
DECA	2,758	13,323	13,436	2,645
Technology Club	541	-	-	541
Instrumental Resale	(530)	951	1,273	(852)
Alternative HS	863	688	516	1,035
VICA Club	93	916	730	279
ACE	1,691	8,382	8,424	1,649
Vredenburg Fund	23	-	-	23
Music Activity Account	11,000	-	11,000	-
Model UN	275	-	-	275
Guidance Office	159	313	210	262
General Athletics	28,126	18,577	21,977	24,726

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Volleyball	(626)	3,411	5,010	(2,225)
Cross Country	592	1,142	1,657	77
Boys Basketball	1,229	9,156	9,435	950
Football	485	15,192	20,456	(4,779)
Boys Soccer	(416)	795	658	(279)
Baseball	(1,358)	3,977	4,089	(1,470)
Boys Track	(6,284)	4,753	-	(1,531)
Boys Tennis	(195)	306	1,006	(895)
Boys Golf	(1,169)	1,309	16	124
Boys Swimming	-	-	250	(250)
Wrestling	(1,565)	3,644	2,803	(724)
Girls Basketball	(50)	6,672	4,239	2,383
Girls Soccer	(441)	381	279	(339)
Softball	1,144	9,373	9,565	952
Girls Track	(2,991)	3,088	2,413	(2,316)
Girls Tennis	(792)	527	-	(265)
Girls Golf	(433)	832	336	63
Girls Swimming	422	1,392	1,485	329
Activity Tickets	6,412	6,438	6,412	6,438
Middle School Activities	2,805	-	-	2,805
	<u>86,604</u>	<u>255,015</u>	<u>272,094</u>	<u>69,525</u>
Grand total	<u>86,604</u>	<u>255,015</u>	<u>272,094</u>	<u>69,525</u>

See accompanying independent auditor's report.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2005	2004	2003	2002
Local sources:				
General	4,209,046	4,162,417	4,194,252	3,851,310
Special revenue/debt service	1,086,590	1,160,568	934,821	901,609
Capital projects	925,247	618	-	-
	<u>6,220,883</u>	<u>5,323,603</u>	<u>5,129,073</u>	<u>4,752,919</u>
State sources:				
General	9,058,009	8,356,506	8,222,757	7,945,820
Special revenue/debt service	766	318	318	-
	<u>9,058,775</u>	<u>8,356,824</u>	<u>8,223,075</u>	<u>7,945,820</u>
Federal sources:				
General	2,140,287	1,478,466	1,629,245	1,241,654
Special revenue/debt service	-	200,000	934,821	901,609
	<u>2,140,287</u>	<u>1,678,466</u>	<u>2,564,066</u>	<u>2,143,263</u>
Total	<u>17,419,945</u>	<u>15,358,893</u>	<u>15,916,214</u>	<u>14,842,002</u>

See accompanying independent auditor's report.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Direct:			
U.S. Corporation for National and Community Service: Americorps	94.006	FY05	27,011
U.S. Department of Education: 21st Century Community Learning Centers Program	84.287	FY05	467,681
Indirect:			
U.S. Department of Agriculture: Iowa Department of Education: Food Distribution (non-cash)	10.550	FY05	48,079
Team Nutrition	10.574	FY05	512
Iowa Nutrition Network Basics	10.561	FY05	4,868
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY05	99,008
Fruit and Vegetable Pilot Grant	10.555	FY05	12,810
National School Lunch Program	10.555	FY05	351,944
			<u>463,762</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6219-G-05 6219-SI-05	397,504 44,819
Migrant Education - Basic State Grant Program	84.011	6219-MC-05	236,055
Grants for Assessments and Related Activities	84.369	FY05	8,916
Innovative Education Program Strategies	84.298	FY05	19,409
Even Start Statewide Family Literacy Program	84.314	FY05	76,540
Improving Teacher Quality - Grants to States	84.348	FY05	88,305
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY05	9,551
Paraeducator Career Ladder Grant	84.323	G-9P17-5	15,050

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Reading First	84.359	FY05	236,315
Immigrant Education	84.162	FY05	23,692
Fund for the Improvement of Education (Bilingual ESL)	84.182	FY05	23,567
Comprehensive School Reform Grant	84.332	C5R2005-37-01	37,345
Grants for Enhanced Assessment Instruments	84.368	FY05	1,078
Charter Schools Program	84.282	FY05	2,975
Prairie Lakes Area Educational Agency:			
Special Education - Grants to States (Success 4)	84.027	FY05	2,500
Special Education - Grants to States (IDEA Part B)	84.027	FY05	116,873
English Language Acquisition States Grants	84.365A	FY05	10,575
U.S. Department of Health and Human Services:			
Iowa Department of Education:			
Refugee Children School Impact Grant	93.576	FY05	<u>24,448</u>
Total			<u><u>2,387,430</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Storm Lake Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Storm Lake Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Storm Lake Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 13, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Storm Lake Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-II-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Storm Lake Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Storm Lake Community School District and other parties to whom Storm Lake Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Storm Lake Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

September 13, 2005

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133**

To the Board of Education of the
Storm Lake Community School District:

Compliance

We have audited the compliance of Storm Lake Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Storm Lake Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Storm Lake Community School District's management. Our responsibility is to express an opinion on Storm Lake Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Storm Lake Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Storm Lake Community School District's compliance with those requirements.

In our opinion Storm Lake Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Storm Lake Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Storm Lake Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Storm Lake Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item 05-III-A of the accompanying Schedule of Findings and Questions Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item 05-III-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Storm Lake Community School District and other parties to whom Storm Lake Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

BRUCE D. FRINK
Certified Public Accountant

September 13, 2005

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Education Agencies
 - CFDA Number 84.287 - 21st Century Community Learning Centers Program.School Nutrition Clustered Programs:
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - Fruit and Vegetable Pilot Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Storm Lake Community School District did not qualify as a low-risk auditee.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-II-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although the District does a fine job of dividing incompatible duties among existing personnel, the District Secretary still has the ability to override the system without the knowledge of any other personnel.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

05-II-B Signature of Student Activity Fund Checks - We noted that the District Secretary did not sign checks in the Student Activity Fund as required by Section 291.8 of the Code of Iowa.

Recommendation - We recommend that the District change its procedures in order that the District Secretary signs all checks issued.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

05-II-C Middle School Bank Accounts - We noted that the Middle School maintains a bank account that is not included in the District financial statements.

Recommendation - We recommend that this account be included in the District financial records.

Response - We will include these accounts in our financial records.

Conclusion - Response accepted.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part III: Findings For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number: 84.101 Title I Grants to Local Education Agencies

Agency Number: 6219-G-05

Federal Award Year: 2005

US Department of Education

Passed through Iowa Department of Education

CFDA Number: 84.287 21st Century Community Learning Centers Program

Federal Award Year: 2005

US Department of Education

Passed through Iowa Department of Education

CFDA Number: 10.553 School Breakfast Program

10.555 National School Lunch Program

10.555 Fruit and Vegetable Pilot Grant

Federal Award Year: 2005

US Department of Agriculture

Passed through Iowa Department of Education

05-III-A Segregation of Duties over Federal Funds - The District did not properly segregate custody, record-keeping and reconciling functions for funds, including those related to Federal programs.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

05-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-IV-B Certified Budget - Disbursements for the year ended June 30, 2005, did not exceed the amounts budgeted.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting:
(continued) :

- 05-IV-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 05-IV-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 05-IV-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 05-IV-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-IV-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 05-IV-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 05-IV-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 05-IV-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- 05-IV-K Financial Condition - We noted that the District's management Fund had a deficit fund balance of \$93.

Recommendation -We recommend that the District investigate alternatives to ensure that the fund remain in a positive financial condition.

Response - We will comply with the recommendation.

Conclusion - Response accepted.